



Arnold Schwarzenegger
Governor

October 19, 2010
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Mr. Stewart Knox, Executive Director
Northern Rural Training Employment Consortium
525 Wall Street
Chico, CA 95928

Dear Mr. Knox:

**WORKFORCE INVESTMENT ACT
FISCAL AND PROCUREMENT REVIEW
FINAL MONITORING REPORT
PROGRAM YEAR 2008-09**

This is to inform you of the results of our review for Program Year (PY) 2008-09 of the Northern Rural Training Employment Consortium's (NoRTEC) Workforce Investment Act (WIA) grant financial management and procurement systems. This review was conducted by Mr. Larry Yanni and Ms. Mechelle Hayes from May 18, 2009 through May 22, 2009. For the fiscal portion of the review, we focused on the following areas: fiscal policies and procedures, accounting system, reporting, program income, expenditures, internal control, allowable costs, cash management, cost allocation, indirect costs, cost/resource sharing, fiscal monitoring of subrecipients, single audit and audit resolution policies and procedures for its subrecipients, and written internal management procedures. For the procurement portion of the review, we examined procurement policies and procedures, methods of procurement, procurement competition and selection of service providers, cost and price analyses, contract terms and agreements, and property management.

Our review was conducted under the authority of Section 667.410(b)(1), (2) & (3) of Title 20 of the Code of Federal Regulations (20 CFR). The purpose of this review was to determine the level of compliance by NoRTEC with applicable federal and state laws, regulations, policies, and directives related to the WIA grant regarding financial management and procurement for PY 2008-09.

We collected the information for this report through interviews with representatives of NoRTEC, a review of applicable policies and procedures, and a review of documentation retained by NoRTEC for a sample of expenditures and procurements for PY 2008-09.

We received your response to our draft report on March 9, 2010, and reviewed your comments and documentation before finalizing this report. Because your response adequately addressed findings one and two cited in the draft report, no further action is required and we consider these issues resolved. However, your response did not adequately address finding three cited in the draft report; therefore, we consider this finding unresolved. We request that NoRTEC provide the CRO with additional information and an updated corrective action plan to resolve the issue that led to the finding. Therefore, this finding remains open and have been assigned Corrective Action Tracking System (CATS) number 90270.

BACKGROUND

The NoRTEC was awarded WIA funds to administer a comprehensive workforce investment system by way of streamlining services through the One-Stop delivery system. For PY 2008-09, NoRTEC was allocated: \$2,969,904 to serve 1,662 adult participants; \$3,134,880 to serve 312 youth participants; and \$2,553,601 to serve 720 dislocated worker participants.

For the quarter ending March 30, 2009, NoRTEC reported the following expenditures and enrollments for its WIA programs: \$1,883,779 to serve 1,127 adult participants; \$2,089,788 to serve 428 youth participants; and \$1,535,453 to serve 633 dislocated worker participants.

FISCAL REVIEW RESULTS

While we concluded that, overall, NoRTEC is meeting applicable WIA requirements concerning financial management, we noted instances of noncompliance in the following area: cost allocation, Memorandum of Understanding (MOU), and contract deliverables. The findings that we identified in these areas, our recommendations, and NoRTEC's proposed resolution of the findings are specified below.

FINDING 1

Requirement: OMB Circular A-87, Attachment A (C)(3)(a) states, in part, that a cost is allocable to a particular cost objective if the goods and services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

OMB Circular A-87, Attachment B (8)(h)(5) states, in part, that personnel activity reports or equivalent documentation must reflect an after-the-fact distribution of the actual activity of each employee. They must be prepared at least monthly, coincide with one or more pay periods, and be signed by the employee.

29 CFR 97.20(a) states, in part, that fiscal control and accounting procedures of subgrantees must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. Section (b)(2) states, in part, that subgrantees must maintain records which adequately identify the source and application of funds for financially-assisted activities. Section (b)(6) requires that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records.

20 CFR Section 667.220(b)(5) states, in part, that the costs of administration are the costs associated with information systems related to administrative functions (for example, personnel, procurement, purchasing, property management, accounting and payroll systems) including the purchase, systems development and operating costs of such systems.

Observation:

We observed that NoRTEC's Systems Administrator charged 100 percent of his time to the program category. However, the Systems Administrator performs activities that support administrative functions. Specifically the Systems Administrator is responsible for planning, designing, installing, maintaining, and evaluating current and future information, telecommunications and networking technology systems within the NoRTEC consortium. This includes support for the administrative functions of NoRTEC personnel including financial reporting, procurement, and property management. Therefore, NoRTEC needs to redistribute the costs for the Systems Administrator according to the benefits received by the program and administration category.

Recommendation:

We recommended that NoRTEC redistribute the costs for the Systems Administrator according to the benefits received by the program and administration category. The redistribution of costs must be for PY 2008-09. Furthermore, the redistribution of costs must be allocated to capture future relative benefits received by the program and administration category. We also recommended that NoRTEC provide the Compliance Review Office (CRO) documentation of the results and actions taken.

NoRTEC Response: The NoRTEC stated that it concurs with CRO's recommendation and has already implemented CRO's recommendation.

State Conclusion: During the on-site fiscal and procurement monitoring for PY 2009-10 the week of May 17, 2010, CRO verified the redistribution of the costs for the Systems Administrator according to the benefits received by the program and administration category for PY 2008-09. Therefore, this finding is resolved.

FINDING 2

Requirement: WIA Section 118(c)(1-2)(A)(i-iv)(B) describes the development and contents of MOUs between the Local Board and One-Stop partners.

20 CFR Section 662.300(a) and (b) states, in part, that the MOU is an agreement developed and executed between the Local Board, with the agreement of the chief elected official, and the One-Stop partners relating to the operation of the One-Stop delivery system in the local area. Additionally, the MOU must contain provisions that cover services to be provided through the One-Stop delivery system, funding of the services, operating costs of the system, and methods for referring individuals between the One-Stop operator and partners.

Observation: We observed that NoRTEC's MOUs were outdated. Specifically, six of ten MOUs have not been signed for PY 2007-08. Additionally, the MOUs referenced One-Stop partners that were no longer at the location and/or were now represented by different service providers.

Recommendation: We recommended that NoRTEC develop a Corrective Action Plan (CAP), including a timeline, for updating all MOUs with all required partners at each One-Stop Center. We also recommended that NoRTEC provide the CRO with copies of all MOUs once they are updated and signed by the required partners.

NoRTEC Response: The NoRTEC stated it has implemented a process of keeping the MOUs up to date.

State Conclusion: During the on-site fiscal and procurement monitoring for PY 2009-10 the week of May 17, 2010, CRO was able to verify the signed and updated MOUs for PY 2007-08. Therefore, this finding is resolved.

FINDING 3

Requirement: 29 CFR 97.36(b)(1) states, in part, grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this Section.

29 CFR 97.36(i)(1-13) outlines the provisions that must be included in grantee's and subgrantee's contracts.

29 CFR 97.36(b)(2) states, in part, that grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts.

Observation: We observed that NoRTEC's subcontractor, North Central Counties Consortium (NCCC), failed to fulfill the statement of work specified in the contract. Specifically, NCCC did not ensure that the existing MOU for each One-Stop Center is current and sufficient; many of the MOUs are incomplete (do not contain all current partners).

Recommendation: We recommended that NoRTEC provide CRO documentation to show that NCCC has fulfilled the deliverables specified in the contract in order to receive payment.

NoRTEC Response: The NoRTEC stated that the deliverables specified in the contract were not to provide fully executed MOUs. The NoRTEC stated that the deliverables were to help negotiate agreements and document those agreements in the MOUs.

State Conclusion: We, again, recommend NoRTEC provide CRO documentation to show that NCCC had fulfilled the deliverables specified in the contract within the contract period (November 1, 2007 to June 30, 2008) in order to receive payment. The contract specifically states, "The Contractor (NCCC) will work with the One-Stop Center partners to make sure that the existing MOU and resource sharing agreement (RSA) for each One-Stop Center is current and sufficient...The contractor will also be responsible to ensure that NoRTEC has a fully executed copy of each One-Stop Center's current MOU and RSA." The NCCC failed to provide signed MOUs for six of ten One-Stop Centers for PY 2007-08 and

in the four signed MOUs, NCCC referenced One-Stop partners that were no longer at the location and/or were now represented by different service providers. Therefore, until NoRTEC provides CRO the documentation that NCCC had fulfilled the deliverables specified in the contract, as mentioned above, NoRTEC must back out the costs and charge them to a non-federal source. This issue remains open and has been assigned CATS number 90270.

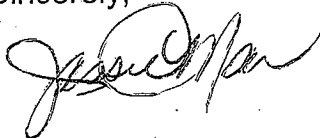
PROCUREMENT REVIEW RESULTS

We conclude that, overall, NoRTEC is meeting applicable WIA requirements concerning procurement.

Because the methodology for our monitoring review included sample testing, this report is not a comprehensive assessment of all of the areas included in our review. It is NoRTEC's responsibility to ensure that its systems, programs, and related activities comply with the WIA grant program, federal and state regulations, and applicable state directives. Therefore, any deficiencies identified in subsequent reviews, such as an audit, would remain NoRTEC's responsibility.

Please extend our appreciation to your staff for their cooperation and assistance during our review. If you have any questions regarding this report or the review that was conducted, please contact Ms. Mechelle Hayes at (916) 654-1292.

Sincerely,



JESSIE MAR, Chief
Compliance Monitoring Section
Compliance Review Office

cc: Linda Beattie, MIC 50
Daniel Patterson, MIC 45
Jose Luis Marquez, MIC 50
Greg Gibson, MIC 50